CO MAXX

1989

ANNUAL REPORT

CO-MAXX ENERGY GROUP INC.

Annual Shareholders Meeting

The Annual General Meeting of the shareholders of Co-Maxx Energy Group Inc. will be held, Friday, May 25, 1990 at 11:00 a.m., in the Glenmore Room of the Calgary Convention Centre, Calgary, Alberta

Contents

Corporate Profile

Co-Maxx Energy Group Inc. was formed by the January 11, 1988 amalgamation of Cochrane Oil & Gas Ltd. and Maxxwell Energy Corp. The corporate office is located in Calgary, Alberta. Co-Maxx common shares are listed on the Alberta Stock Exchange and trade under the symbol KXX.

The Company is growth focused. Its business is oil, natural gas, exploration, development and production. Major reserves and production holdings are concentrated at two locations in southern Alberta and in one area of southern Saskatchewan. Exploration is conducted in proximity to the Company's existing reserves and also in new locations throughout southern Alberta.

Co-Maxx's existing assets are 100% natural gas related and this has served to create an element of stability and predictability in the financial expectations of the Company.

Management believes in an exceptional future for natural gas producers and is continuing its past strategy to pursue increases in natural gas interest both by way of exploration and acquisition. The Company is also intent on balancing future operations as any opportunity arises to obtain oil reserves at costs that justify the investment.

Co-Maxx considers substantial future growth to be its overall priority as a means to building shareholder equity. To compete successfully over the longer term, it is management's view that the size of Co-Maxx as an economic unit must increase substantially. This is necessary to keep pace with industry standards of efficiency, which continue to escalate with the ongoing shake out of non performing organizations. Co-Maxx is well managed, financially sound and is well positioned to achieve the growth the Company needs.

To The Shareholders of Co-Maxx Energy Group Inc.

It is with pleasure that I report to you on Co-Maxx's most successful year ever. In 1989, our Company experienced a continuation of the success that started the previous year.

During 1989, without additional shareholder equity, Co-Maxx reduced debt, gained 25% interest in six quality exploration prospects, made provision for growth of the Armada gas plant processing volumes and added about one bcf of proven gas reserves. Also, the cost reductions of 1988 continued through 1989.

Financial Highlights

	Gross Revenue	Earnings After Tax	Cash Flow	Earnings Per Share	Cash Flow Per Share
1989	$2,312,207	$ 198,198	$683,312	$ 0.05	$ 0.18
1988	2,284,257	165,477	704,522	$ 0.04	$ 0.18
1987	2,488,628	(1,044,020)	(166,960)	$(0.27)	$(0.04)
Change	1%	20%	(3)%	25%	0%

Co-Maxx recorded earnings after tax of $198,198 for the year compared to $165,477 in 1988. The Company now has two years of continued successful operation behind it since the Amalgamation in January, 1988. The significance of the performance improvement is readily evident in the table above. Shareholders are now enjoying earnings of $0.05 per share compared to a loss of $0.27 per share two years ago. The ability of the company to generate cash flow has improved just as dramatically with cash flow of $0.18 per share now being realized compared to negative cash flow of $0.04 per share two years ago. Much of this improvement was from cost reductions initiated in 1988 and the benefits will continue, year after year. The one area of concern that came to bear on our operations in 1989 was the persistently high interest rate level, something that has been beyond our immediate control. Interest rates, which we felt were high in 1988, went even higher in 1989 and escalated our borrowing cost by $100,000 from $516,000 to $618,000, even though our outstanding loan balances were lower. The additional borrowing cost was offset by a further $100,000 reduction in general and administrative overhead costs. It is, none the less, disconcerting because this $100,000 would have otherwise been a direct improvement in profit, by 33%. As a result, the matter of loan costs is now a major priority for resolution in 1990.

Operations Highlights

	Armada Plant Gross mmcf/d	Co-Maxx Avg. Prod. mmcf/d	Proven Reserves Natural Gas (BCF)	Land Net Acres
1989	16.881	1.890	8.297	24,079
1988	16.397	1.863	8.072	19,542
1987	12.580	1.775	8.754	25,576
Change	484	.027	.225	4,537

The operations highlight, as last year, is the continuing benefit achieved from our Armada gas plant. This facility contributes approximately 50% of our total cash generated by operations. During 1989, a large amount of exploration activity in the plant's area of operations added significantly to the reserve base available to the Plant as future processing volumes. During the year only one new well was tied in to the plant as a result of Nova main line transportation restrictions. These restrictions are to be relieved in November of this year and between now and then we expect 45 km of additional gathering lines and 10 additional wells will be tied into the Plant. Processed volumes should increase to at least 20 mmcf/d once this expansion/reconfiguration occurs. Co-Maxx, through drilling and recompletion activities participated in two dry holes and recompleted a well. Including the recompletion, approximately one bcf of proven gas reserves was added which was more than sufficient to offset production depletion of .7 bcf during 1989. During the last quarter of the year new gas production brought on stream increased production by about 1.0 mmcf/d. This was one of the objectives set out at the last Annual Meeting, now accomplished.

Exploration

Co-Maxx continues to pursue an active exploration program in southern Alberta. The program, started late in 1988, now consists of six prospects where geological evaluation is well advanced, land has been acquired, seismic work conducted and drilling locations are being determined. One dry hole was drilled in the latter part of 1989 which is viewed as part of the development and definition of that particular prospect. Additional prospects continue to be developed with the program scheduled to carry on at least through 1990. Co-Maxx maintains 25% or greater working interest in all lands acquired to date.

Strategic Plan

The goal of our strategic plan remains to build shareholder value in the Company. In addition to continuing the efforts highlighted earlier, toward this goal, an acquisition of value will play a major role in providing Co-Maxx with the future we as shareholders should expect. Our aims to build shareholder value during 1990 will be concentrated on reducing interest costs, increased reserves, Armada processing throughput and an acquisition of substance. A bid to repurchase up to 5% of the Company's shares on the open market was also implemented in December as part of the plan to build shareholder value. Under this plan, up to 195,952 shares may be purchased, prior to December, 1990 by the Company for cancellation. The Board has allocated $150,000 for such purchases.

Acknowledgements

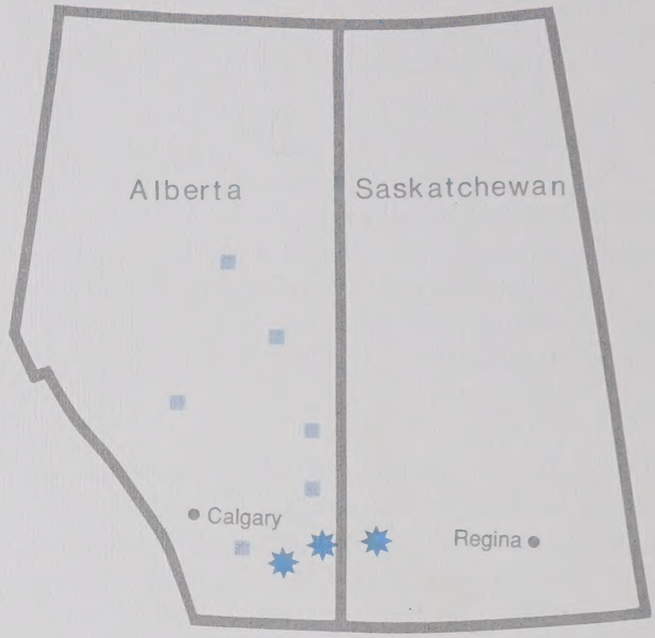
The dedication of both corporate and field staff is apparent from our continuing successful operation. The Board wishes to thank all staff and shareholders for their support. We look forward to maintaining your confidence and rewarding it through your continued participation in the success of Co-Maxx.

Respectfully submitted on behalf of the Board,

Gerald J. Hipple
President & Chief Executive Officer
March 31, 1990

Operations Review

Co-Maxx has various working interests in fifteen areas of Alberta, one in Saskatchewan and three areas in the United States. Six of the Alberta interests are new Exploration Prospects described in the Exploration Review. The Company also owns varying interests in four gas gathering and processing systems. Co-Maxx is the managing operator of over 95% of the wells in which it maintains an interest and operates three of the four gas facilities servicing these wells. Operations activity during 1989 was principally in the following three areas:



Co-Maxx Operations and Working Interest Lands

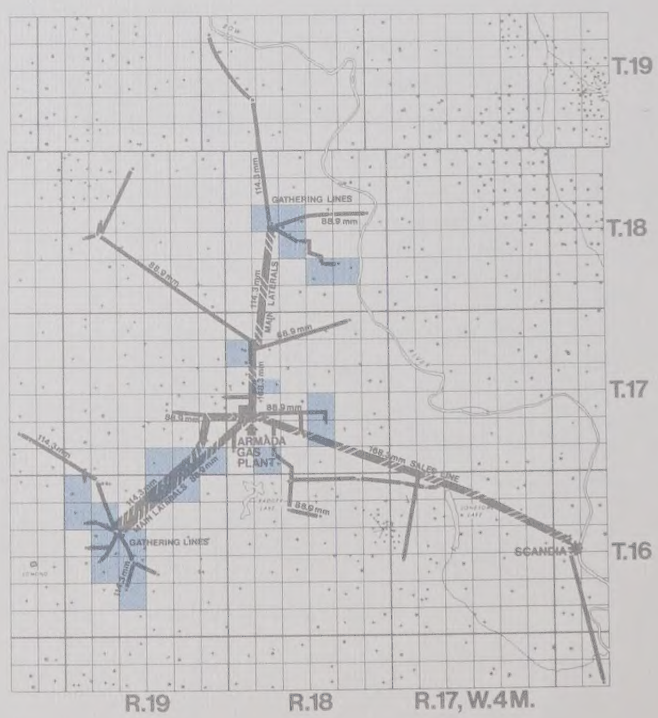
Armada Area, Alberta

Co-Maxx holds various interests in 14,720 gross (4,594 net) acres in the Armada area, located 35 miles southwest of Brooks, Alberta. The Armada properties contain 14 producing gas wells in which Co-Maxx holds an average interest of 47%. All wells are tied-in to a processing system in which Co-Maxx has a 37.5% interest and is the managing operator. Gross remaining recoverable gas reserves of 3.444 bcf and net reserves to Co-Maxx of 2.316 bcf are estimated by management to be recoverable as of December 31, 1989.

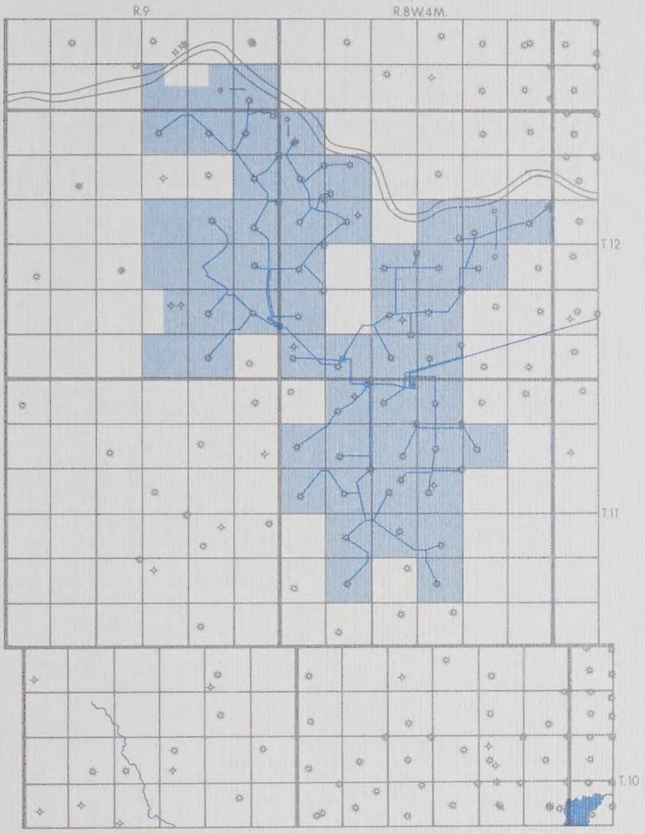
During 1989, an average of 2.475 mmcf/d of gas, .865 mmcf/d net to Co-Maxx, was produced from the Company's Armada wells. All of the producing wells in this area are under contract. Co-Maxx has two contracts with TransCanada Pipelines Limited under which it supplies volumes of up to 1.0 mmcf/d. Volumes of 3.0 mmcf/d are also supplied to other purchasers.

The Armada Gas Plant custom processes natural gas for all other well owners in the area. There are currently 39 producing wells tied-in to this system including the 14 wells in which Co-Maxx participates. An infrastructure of 57 km of gathering lines is tied-into the plant.

During 1989, the gas plant and related delivery system handled an average of 16.881 mmcf/d compared to an average of 16.397 mmcf/d in 1988. Expansion plans now in progress are scheduled for completion by November 1, 1990 to coincide with availability of additional mainline transportation. As part of the expansion, it is expected ten additional wells will be tied-in immediately and 45 km of additional gathering lines will be in place.



Armada Gas Processing System



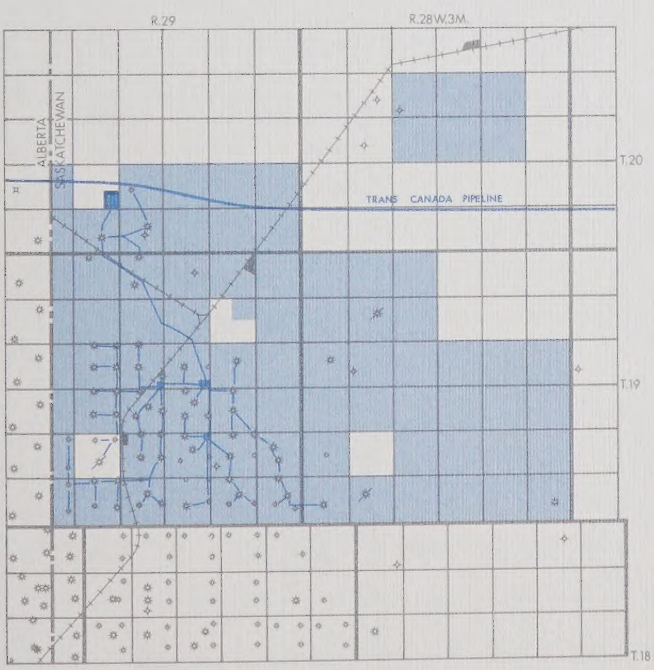
Rattlesnake, Alberta

Rattlesnake Area, Alberta

Co-Maxx owns various interests in 67 producing gas wells in the Rattlesnake Area of southeastern Alberta, located approximately 20 miles west of Medicine Hat.

Gross remaining recoverable reserves of 4.052 bcf and .825 bcf net to Co-Maxx are estimated by management to remain at December 31, 1989. Co-Maxx has an average 20.0% working interest in the producing wells. The wells all produce from the Second White Specks zone with ten wells also producing from the Medicine Hat and Milk River Sands formations. Co-Maxx is the managing operator of the field.

The gas production is sold to the City of Medicine Hat under a long-term contract. The current production rate is 2.3 mmcf/d with a well defined decline rate of 5% to 6% per year. The wells currently produce throughout the year directly into the City of Medicine Hat system. During 1989, an average of 2.350 mmcf/d of gas was produced from the field representing .389 mmcf/d net to Co-Maxx. Co-Maxx has approximately a 20% interest in 32,000 gross (6,400 net) acres of proven lands in this area.



Burstall, Saskatchewan

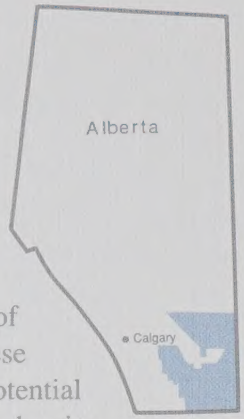
Burstall Area, Saskatchewan

Co-Maxx has a 15% working interest in 76.25 sections (48,800 acres) of land in the Burstall area of southwestern Saskatchewan. Co-Maxx is the managing operator of the project. There are three main producing reservoirs, the Milk River, Medicine Hat and Viking Sands zones. Gross recoverable reserves of 32.519 bcf and 4.833 bcf net to Co-Maxx are estimated by management to remain at December 31, 1989.

There are currently 58 producing gas wells, 2 are completed in the Viking zone and 56 produce from the Milk River Medicine Hat zones. The gas is purchased by Saskatchewan Energy Corporation under a long term contract where the purchaser takes an average of 3.5 mmcf/d.

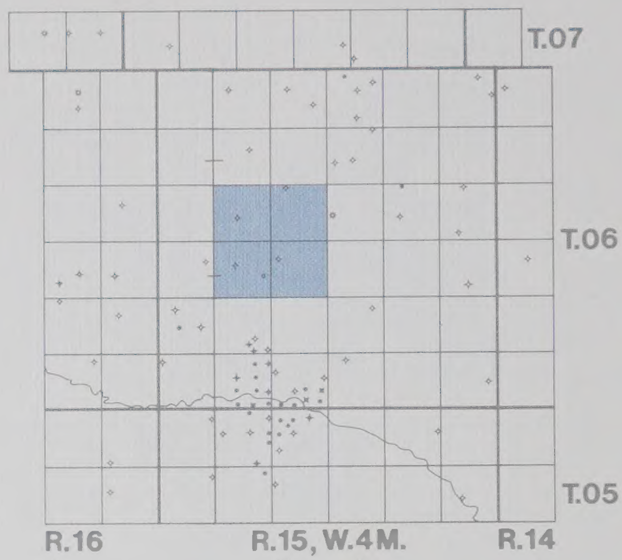
During 1989, an average of 3.890 mmcf/d of gas was produced from the area which represents .583 mmcf/d net to Co-Maxx.

Exploration Review



Co-Maxx has completed its first year of participation in a new exploration program. The program has concentrated on identifying oil prospects in the southeast area of Alberta with special emphasis on potential Sunburst, Moulton and/or Glauconitic sandstone reservoirs of the Lower Mannville section. These reservoirs have high gravity oil potential in the large area between the Manyberries and Coutts oilfields. Fourteen prospects have been developed, and to date, land acquisitions have been made on the following six prospects:

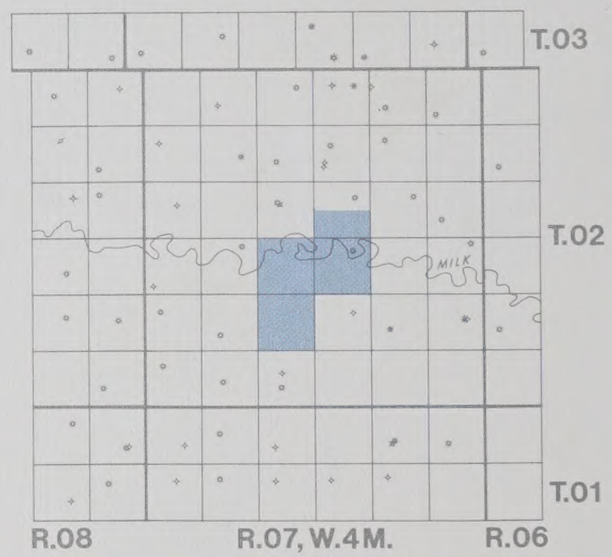
North Conrad Twp. 6, Rge. 15 W4M



Conrad

The Conrad prospect is a Sawtooth oil play located north of the Conrad oil pool. The key wells in the prospect had free oil on drillstem test and log characteristics which suggest untested oil pay. Four sections of land were purchased and a seismic program was undertaken. Based on the seismic interpretation a location was selected and a well drilled. The well was abandoned but the prospect continues to be attractive based on information obtained from the abandoned hole and the reinterpreted seismic. Co-Maxx is operator of the lands and holds 25% interest in two sections and 100% interest in the remainder.

Comrey Twp. 2, Rge. 7 W4M

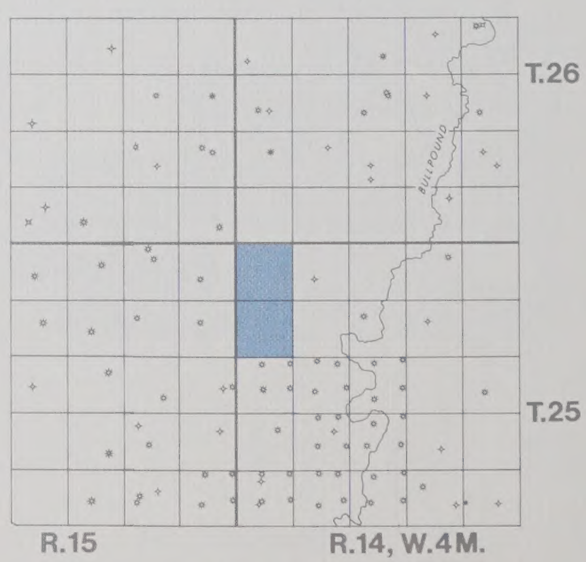


Comrey

This prospect is a high quality Sunburst sand oil prospect. The Sunburst sand in the area often contains light gravity (38° - 41° API) oil. The Manyberries field to the northeast has 15 million barrels recoverable oil and has, to date, produced 10 million bbls. on primary production.

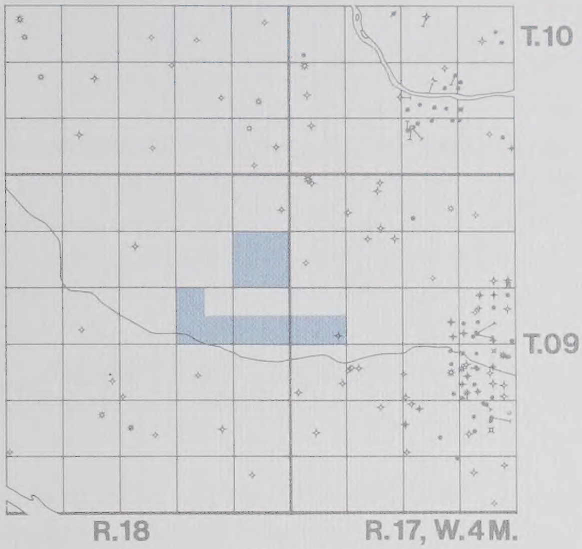
The Comrey prospect has potential for 200,000 bbls. recoverable oil per spacing unit averaging 800,000 bbls. recoverable per section from a depth of approximately 1000 meters. Co-Maxx is the operator and has 25% working interest in the prospect. It is expected that a test well will be drilled in the summer of 1990.

Connorsville Twp. 25, Rge. 14 W4M

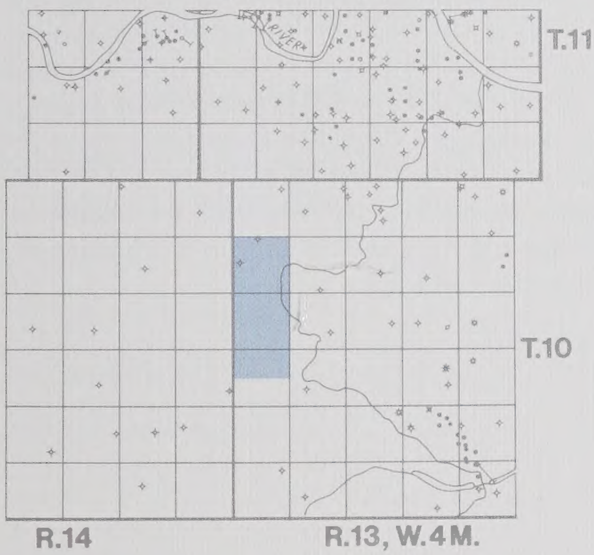


Connorsville

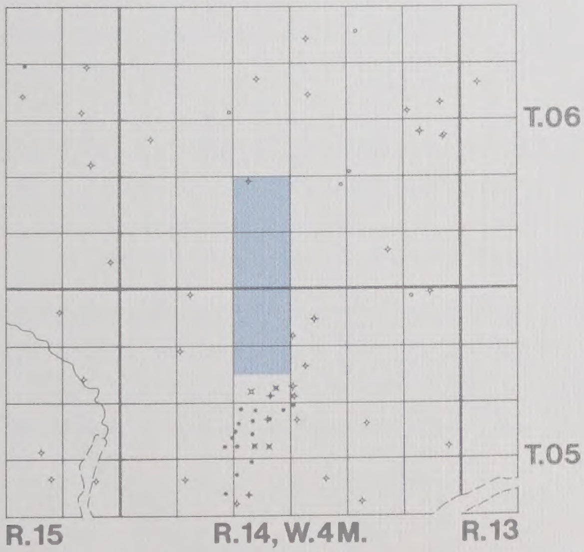
Connorsville is a Viking, Glauconitic and Basal Quartz oil and/or gas prospect. A total of 24 km of



Wellburn



Grassy Lake



Skiff

seismic has been purchased and interpreted and additional seismic data will be acquired to help determine a suitable drilling location. A test hole in the summer of 1990 is contemplated. Co-Maxx is operator and has 25% working interest in the prospect.

Wellburn Twp. 9, Rge. 18 W4M

This prospect has multizone potential for Bow Island gas, Taber oil and/or gas and Sawtooth oil.

A short seismic line has been shot to confirm the geological conditions required to establish the prospect. The data confirmed the exploration concept. Additional seismic is being acquired to identify a drilling location, with drilling expected in the summer of 1990. Co-Maxx operates the prospect and holds 25% working interest.

Grassy Lake Twp. 10, Rge. 13 W4M

This is a Taber sand oil prospect. Subsequent to acquisition of the P & NG leases, five km of seismic was shot and evaluated. The prospect still requires further geological and geophysical review. Co-Maxx is operator and holds 25% working interest in the prospect.

Skiff Twp. 6, Rge. 14 W4M

This prospect is a Sawtooth sand oil play. Trade seismic was purchased and interpreted, and an additional 8 km of seismic was shot and interpreted. A drilling location has been selected and will be priority rated with the balance of the prospect drilling scheduled for the coming summer. Co-Maxx is operator and holds 25% working interest in the prospect.

Petroleum and Natural Gas Lands

Land Holdings (acres) in which the Company maintains a working interest as of December 31, 1989 are:

	Gross	Net
Canada — Alberta	72,672	16,314
— Saskatchewan	47,741	7,129
U.S.A.	5,670	636
TOTALS	126,083	24,079

Financial Review

The strong financial performance in 1989 demonstrated Co-Maxx's ability to maintain the momentum established in 1988 and to continue to build a solid base for future growth. The Company was able to offset the negative impact of higher interest rates through continual monitoring of all expenditures and a cautious capital investment program.

Net earnings for the year were $198,198 or $0.05 per share compared with $165,477 or $0.04 per share in 1988. Cash flow from operations was $683,312 compared to $704,522 in the prior year.

Petroleum and natural gas sales after royalties in 1989 of $973,556 compared with $1,030,084 in 1988. Gas production for the year was 686 mmcf compared to 682 mmcf for the previous year with the average selling price of $1.44/mcf remaining consistent with the previous year.

Gas Processing revenues were $951,046 in 1989 compared with $894,305 in 1988. This 5% increase is directly attributable to an increase in volume throughput.

General and administrative expenses were $225,436 in 1989 compared with $317,954 in 1988. This 41% decrease occurred primarily as a result of improved efficiency on an increasingly expanded operational base.

Interest on long term debt for the year increased over 1988 by 20% from $515,669 to $618,142. This increase is a direct result of higher interest rates despite a lower level of outstanding bank indebtedness during the year. Interest rates averaged 15% in 1989 compared to 12% in 1988. Depreciation and depletion decreased by 10% due mainly to additions to the Petroleum and Natural Gas reserve base.

Internally generated funds from operations have been utilized in paying down bank indebtedness and on replacing the reserve base. Bank debt has decreased by $354,000 from $4,298,000 in 1988 to $3,944,000 in 1989. A total of $329,102 in 1989 compared to $127,735 in 1988 was expended on capital expenditures. Of the major expenditures approximately $90,000 was expended to recomplete an Armada well that added 800 mmcf reserves and approximately $117,000 was spent for geology, seismic and land leases in support of the company's exploration activity.

Auditors' Report

To the Shareholders of
Co-Maxx Energy Group Inc.:

We have examined the consolidated balance sheet of Co-Maxx Energy Group Inc. as at December 31, 1989 and the consolidated statements of earnings and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of determining extraordinary items as explained in Note 8 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
March 9, 1990

Deloitte & Touche
Chartered Accountants

Consolidated Balance Sheet

	December 31 1989	December 31 1988
ASSETS		
Current Assets		
Cash and term deposits	$ 413,496	$ 537,492
Accounts receivable	709,903	904,920
Deposits and prepaid expenses	77,896	63,893
	1,201,295	1,506,305
Property, Plant and Equipment (Note 2)	6,683,294	6,839,306
	$7,884,589	$8,345,611
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 630,851	$ 860,316
Current portion of long-term debt (Note 3)	450,000	[illegible]
	1,080,851	[illegible]
Long-term Debt (Note 3)	3,494,000	4,094,000
Gas Production Prepayments (Note 4)	141,109	209,577
Other	62,114	62,114
	4,778,074	5,430,007
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	2,742,840	2,750,127
Retained Earnings	363,675	165,477
	3,106,515	2,915,604
	$7,884,589	$8,345,611

Approved on Behalf of the Board:

Director

Director

Consolidated Statement of Earnings and Retained Earnings

	Year ended December 31	
	1989	1988 (Restated - Note 8)
Revenue		
Petroleum and natural gas sales	**$1,052,474**	$1,091,989
Less royalties, net of Alberta Royalty Tax Credit of $63,214 (1988 - $50,358)	**78,918**	61,905
	973,556	1,030,084
Processing revenue	**951,046**	894,305
Field operating revenue	**320,139**	301,680
Interest and other	**67,466**	58,188
	2,312,207	2,284,257
Expenses		
Operating	**609,292**	599,571
Plant operating costs	**176,025**	146,541
Interest on long-term debt	**618,142**	515,669
General and administrative	**225,436**	317,954
Depletion and depreciation	**485,114**	539,045
	2,114,009	2,118,780
Earnings before income taxes	**198,198**	165,477
Income taxes (Note 7)	**–**	–
Earnings	**198,198**	165,477
Retained earnings, beginning of year (Note 6)	**165,477**	–
Retained earnings, end of year	**$ 363,675**	$ 165,477
Earnings per common share, basic and fully diluted, based on the weighted average number of shares outstanding	**$0.05**	$0.04

Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1989	1988
Cash Provided By (Used For)		
Operations		
Earnings for the year	$ 198,198	$ 165,477
Items not involving cash		
Depletion and depreciation	485,114	539,045
	683,312	704,522
Changes in non-cash working capital	(48,451)	(437,404)
	634,861	267,118
Financing		
Repayment of long-term debt	(354,000)	(102,000)
Prepaid gas production repayments	(68,468)	(38,650)
Repurchase of common shares	(7,287)	–
	(429,755)	(140,650)
Investments		
Property, plant and equipment	(329,102)	(127,735)
Other	–	68,461
	(329,102)	(59,274)
(Decrease) Increase in Cash and Term Deposits	(123,996)	67,194
Cash and term deposits, beginning of year	537,492	470,298
Cash and Term Deposits, End of Year	$ 413,496	$ 537,492

Notes to Consolidated Financial Statements

December 31, 1989

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Co-Maxx Energy Group Inc. and its wholly owned subsidiaries, 373829 Alberta Ltd., 328034 Alberta Ltd., and Cochrane Oil & Gas Inc. The consolidated financial statements for the year ended December 31, 1988 also include the accounts of the company's wholly owned subsidiary, 200316 Holdings Ltd., which has been excluded from consolidation with effect from January 1, 1989 because the company does not exercise control over the subsidiary.

Petroleum and Natural Gas Operations

The company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves and related equipment are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, and overhead expenses related to exploration and development activities. These costs are depleted using the unit of production method based on estimated net proved reserves of petroleum and natural gas as determined by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon relative energy content.

Substantially all of the company's exploration and production activities are carried on jointly with others. These consolidated statements reflect only the company's proportionate interests in such activities.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and depreciation of all cost centres, less deferred income taxes, are further limited to an amount equal to the estimated future general and administrative expenses, financing costs, and income taxes.

Gas Processing Plant and Facilities

Gas processing plant and facilities are depreciated on a straight-line basis over their estimated useful life of twenty years.

Office Equipment and Leasehold Improvements

Depreciation of office equipment is provided on the diminishing-balance basis at a rate of 20% per annum.

Leasehold improvements are amortized by the straight-line method over the term of the related lease.

Mining Properties

All of the mining claims are in the exploratory and development stage, and a determination has not yet been made whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mining claims and deferred expenditures is dependent upon the existence of economically recoverable reserves and upon future profitable production.

Segmented Information

The company's activities are primarily in one business segment, oil and gas exploration, development and production, and are conducted in Canada.

Comparative Accounts

As a result of the exclusion from consolidation of one of the company's subsidiaries, certain of the comparative accounts have been reclassified to conform with the financial statement presentation adopted for 1989. In addition, the prior year's financial statements were audited by another firm of Chartered Accountants.

Notes to Consolidated Financial Statements

December 31, 1989

2. Property, Plant and Equipment

	1989			[illegible]
	Cost	Accumulated depletion and depreciation	Net	Net
Petroleum and natural gas leases and rights	$11,178,550	$7,580,752	$3,597,798	$3,639,883
Gas processing plant and facilities	3,165,824	678,307	2,487,517	2,583,987
Office equipment	160,763	106,990	[illegible]	61,361
Leasehold improvements	156,588	130,567	26,021	35,890
	14,661,725	8,496,616	[illegible]	6,321,121
Mining properties				
Mining claims	160,000		160,000	160,000
Deferred expenditures	358,185		358,185	358,185
	518,185		518,185	518,185
	$15,179,910	$8,496,616	$6,683,294	$6,839,306

3. Long-Term Debt

	1989	1988
Bank loan	$3,944,000	$4,298,000
Principal amount due within one year	(450,000)	(204,000)
	$3,494,000	[illegible]

The bank loan has been advanced under a $500,000 revolving term credit facility, of which $350,000 has been drawn as at December 31, 1989, and a fixed term production loan facility of $3,594,000. Interest is payable monthly at a rate of 1.5% over the bank's prime rate. The loans are secured by the company's petroleum and natural properties and a fixed and floating charge debenture.

Principal repayments of $50,000 per month ($600,000 per annum) are due on the fixed term production loan in 1990. The company has shown the 1990 principal repayment amount as $450,000 based on using its presently undrawn revolving term credit facility of $150,000 to reduce the 1990 required principal repayments. The repayment terms for 1991 to 1994 are based on varying monthly amounts determined by the loan agreement.

Principal repayments are scheduled as follows:

1990	$ 450,000
1991	696,000
1992	996,000
1993	1,104,000
1994	698,000
	$3,944,000

4. Gas Production Prepayments

Amounts received for annually contracted natural gas volumes not taken by purchasers are deferred and recognized as revenue when deliveries are made over a ten-year period commencing November 1, 1984.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1989

5. SHARE CAPITAL

Authorized

An unlimited number of common shares without nominal or par value
An unlimited number of first preferred shares without nominal or par value
An unlimited number of second preferred shares without nominal or par value

	Number of Shares	Amount
Issued		
Balance, December 31, 1988	3,919,043	$2,750,127
Shares repurchased for cancellation pursuant to a normal course issuer bid expiring on December 1, 1990	(17,500)	(7,287)
Balance, December 31, 1989	3,901,543	$2,742,840

Stock Options

Through the company's stock option plan, the company has outstanding options to purchase 228,000 common shares held by directors, officers and employees. The outstanding options are exercisable at a price of $0.30 per share, and expire in April of 1992. Of the options outstanding, 57,000 options may be exercised as at December 31, 1989.

6. RETAINED EARNINGS

Pursuant to a plan of arrangement, the company's deficit at December 31, 1987 was eliminated by a reduction of $6,821,226 in the stated value of the company's share capital.

7. INCOME TAXES

As at December 31, 1989, the company had the following approximate amounts available to reduce the future years' earnings for income tax purposes, the benefit of which has not been recorded in the accounts. The amounts are subject to final determination by taxation authorities.

	Canada	United States
Loss for income tax purposes		
Expiring in varying amounts beginning in 1994	$514,000	$ –
Expiring in varying amounts beginning in 1995	–	880,000
Excess tax values over net book value of property, plant and equipment	438,000	–
	$952,000	$ 880,000

Income tax expense differs from the amounts which would be obtained by applying the Canadian Basic Federal Income Tax rate of 44% (1988 - 47%) to the respective year's loss before income taxes. The difference between the computed "expected" income tax provision and the actual income tax provision is summarized as follows:

	1989	1988
"Expected" tax provision	$ 87,200	$ 77,800
Non-deductible crown charges net of provincial credits	17,500	31,300
Federal resource allowance	(21,500)	(82,800)
Other, net	1,000	–
Income tax savings resulting from application of prior years' operating losses	(84,200)	(26,300)
	$ –	$ –

Notes to Consolidated Financial Statements

December 31, 1989

8. Restatement of Prior Years

The company has retroactively changed its accounting policy with respect to extraordinary items, in accordance with the pronouncements of the Canadian Institute of Chartered Accountants dated January 1990. Previously, the company included income tax savings resulting from application of prior years' operating losses as an extraordinary item. The income tax savings of $84,200 (1988 - $26,300) are now included in the provision for income taxes (Note 7). The 1988 figures provided for comparison (including earnings per share calculations) have been restated accordingly.

9. Related Party Transactions

During the year the company paid $61,625 (1988 - $15,200) in consulting fees to a company owned by a director of the company in his capacity as a geological consultant.

10. Commitments

The company has a lease agreement in respect of office premises for which future minimum payments of the lease are approximately as follows:

1990	–	$51,000
1991	–	51,000
1992	–	38,000

Corporate Information

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Douglas L. Fraser
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Galvanic Analytical Systems Ltd.
Calgary, Alberta

Roger H. Giovanetto
President,
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Calgary, Alberta

Gerald J. Hipple
President & Chief Executive Officer,
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Calgary, Alberta

Dr. Thomas Parks
President,
Parks Resources Ltd.
Calgary, Alberta

Officers

Gerald J. Hipple
President & Chief Executive Officer

B. John Schmidt
Controller

Bankers

Treasury Branches of Alberta
Calgary, Alberta

Legal Counsel

McLeod Dixon
Calgary, Alberta

Auditors

Deloitte & Touche

Registrar & Transfer Agent

Montreal Trust
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Trading Symbol — KXX

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